

Message Text

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ACTION EA-14

INFO OCT-01 ARA-16 EUR-25 NEA-14 ISO-00 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FPC-01

H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07

RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

FRB-03 FEA-02 PA-04 PRS-01 USIA-15 IO-14 AF-10 DRC-01

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R 230630Z JUL 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 3485

INFO AMEMBASSY ALGIERS

AMEMBASSY BONN

USEC BRUSSELS 170

AMEMBASSY CARACAS

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMCONSUL MEDAN

OECD PARIS 813

AMEMBASSY ROME

AMCONSUL SURABAYA

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY VIENNA

CINCPAC HONOLULU HI

C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 9057

CINCPAC FOR POLAD

EO 11652: GDS

TAGS: ENRG ID

SUBJ: ENERGY: DEMARCHE' OPPOSING HIGH OIL PRICES

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REF: A. JAKARTA 8934 B. JAKARTA 8809 C. JAKARTA 8802

D. JAKARTA 8556 (NOTAL)

1. SUMMARY. DURING JULY 22 CALL ON GOI DIRECTOR FOR OIL AND GAS (MIGAS) IR. WIJARSO, I EXPRESSED OUR CONCERN OVER NEGATIVE IMPACT HIGH OIL PRICES, DISCUSSED RATIONALE OF GOI PRICING FORMULA AND ASKED FOR HIS VIEWS ON FUTURE OIL PRICES. DURING CORDIAL AND FRANK 45-MINUTE MEETING, WIJARSO POINTED OUT THAT INDONESIA FOLLOWED OPEC LEAD ON PRICING. HE ARGUED THAT PRESENT INDON PRICE WAS CONSISTENT WITH VALUE LONG-TERM MID-EAST BULK SALES AND THAT TREND OF INDON PRICE WAS NOT CONTRARY TO WORLD TREND. WIJARSO WAS SKEPTICAL CRUDE OIL PRICES WOULD FALL, GIVEN EXISTING BUY-BACK AND PARTICIPATION AGREEMENTS, UNLESS SAUDI ARABIA WAS PREPARED TO ENGAGE IN SOMETHING MORE THAN "PUBLIC RELATIONS". HE DISCOUNTED DEVELOPED COUNTRIES (DC) PROPHECIES OF WORLDWIDE ECONOMIC RECESSION AS A STRAWMAN FOR THEIR CONCERN OVER BASIC SHIFT IN FLOW OF FINANCIAL RESOURCES AND POWER. END SUMMARY.

2. I CALLED ON WIJARSO JULY 22 TO EXPRESS OUR DEEP CONCERN OVER IMPACT HIGH OIL PRICES. AFTER REFERRING TO MEETINGS WITH MINMINES SADLI (RREFTELS B AND C) AND MINRESEARCH SUMITRO (REFTEL A), AND TALKING PAPER (REFTEL D) THAT HE RECEIVED PREVIOUSLY FROM EMBOFF, I ASKED WIJARSO FOR HIS VIEWS ON FUTURE OIL PRICES.

3. WIJARSO INITIALLY TOOK SAME TACK AS MINMINES SADLI (REFTEL C) IE, INDONESIA IS A SMALL PRODUCER AND FOLLOWS OPEC LEAD ON PRICING. HE THEN DESCRIBED IN GREAT DETAIL PRICING HISTORY OVER LAST YEAR MAKING FOLLOWING POINTS.

A. INDON PRICE BASED ON VALUE COMPARABLE MID-EAST CRUDE;

B. INDON PRICE IS RELATED TO BULK, LONG-TERM SALES AND NOT TO SPOT SALES;
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C. \$10.80 PRICE SET JANUARY 1, 1974 WAS MUCH LOWER THAN BOTH SPOT AND BULK SALES IN EFFECT THEN; JAPANESE AND OTHERS WERE SURPRISED PRICE NOT RAISED TO \$12-14 LEVEL;

D. \$11.70 APRIL 1 PRICE REFLECTED INCREASED COST MID-EAST CRUDE DUE TO 93 PERCENT BUY-BACK

AGREEMENT:

E. JULY 1 INCREASE TO \$12.60 BASED ON YET
HIGHER CRUDE COSTS DUE TO IMPLEMENTATION OF 60/40
PARTICIPATION TERMS.

HE CITED LACK OF JAPANESE REACTION TO \$12.60 PRICE
AND PETROLEUM INTELLIGENCE WEEKLY (PIW JULY 8)
COMMENT AS PROOF RECENT "PRICE ADJUSTMENT" WAS
REASONABLE AND CONSISTENT WITH MARKET CONDITIONS.

4. IN RESPONSE, I MENTIONED REPORTS OF DECLINING
PRICES FOR ARABIAN LIGHT AND LIBYAN CRUDE (INT'L
OIL DEVELOPMENT JULY 11) AND EXPRESSED OUR BELIEF
AND HOPE THAT PRICE LEVELS WOULD DROP. WIJARSO AGREED
SPOT PRICES WERE DECLINING BUT EMPHASIZED INDON
PRICE RELATED TO PRICE OF BULK SALES. HE SAID, HE
UNDERSTANDS PRESENT TAX PAID COST FOR ARABIAN LIGHT
IS ABOUT \$9.24-\$9.50 PER BARREL AND BULK SALES
PRICE IS ABOUT \$10.50. HE CHARACTERIZED ALL LYBIAN
AND ALGERIAN SALES AS "SPOT SALES" AND, THEREFORE,
IRRELEVANT TO INDON PRICING FORMULA. HE VOLUNTEERED
THAT MOST EUROPEAN AND JAPANESE STORAGE TANKS ARE
NOW FULL AS RESULT OF PANIC BUYING, AND MILD WINTER
AND SUMMER. HE SAID OIL TRADE WIL BE SLOW FOR
NEXT 2-3 MONTHS, PICKING UP AGAIN IN SEPTEMBER.

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FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 3486
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CINCPAC FOR POLAD

5. WIJARSO THEN POINTED OUT INDON OIL EXPORTS TO JAPAN INCLUDED BOTH CRUDE OIL AND WAXY RESIDUE BURNED DIRECTLY AS FUEL OIL. HE POINTED OUT THAT WHILE EIGHT YEARS AGO WAXY RESIDUE WAS "BIG HEADACHE" AND SOLD CONFIDENTIAL

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FOR 40-50 CENTS LESS THAN CRUDE OIL (1.77 BARREL), TWO YEARS AGO WAXY RESIDUE BEGAN SELLING FOR MORE THAN CRUDE. HE SAID THAT ON JANUARY 1, 1974, WAXY RESIDUE SOLD FOR \$12.80 WHEN CRUDE SAOLD FOR \$10.80; ON APRIL 1, WAXY RESIDUE SOLD FOR \$14.00 WHEN CRUDE SOLD FOR \$11.70. REINFORCING POINT INDON PRICE BASED ON MARKET CONDITIONS, WIJARSO SAID ALTHOUGH CRUDE PRICE REAISED TO \$12.60 JULY 1, WAXY RESIDUE PRICE REMAINED AT \$14.00 AS LARGER QUANTITIES COMPETITIVE FUEL OIL WERE AVAILABE FROM EUROPEAN SOURCES (PRESUMABLY FROM IRAQ AND BLACK SEA AREA).

6. IN RESPONSE TO MY QUESTION ABOUT THE PREMIUM PAID FOR INDON CRUDE, WIJARSO SAID DIFFERENTIAL WAS BASED ON LOW SULPHUR CONTENT AND SHORT HAUL TO JAPAN. WIJARSO NOTED SHIPPING DIFFERENTIAL FLUCTUATED WITH TANKER RATES AND WAS SUBJECT TO FREQUENT ADJUSTMENTS. FOR EXAMPLE, AT WORLDSCALE(WS)100, DIFFERENTIAL EQUAL TO ABOUT 40 CENTS AND AT WS 200 EQUAL TO 80 CENTS PER BARREL. RE: SULPHUR CONTENT, WIJARSO SAID, "PREMIUM IS VERY HIGH"(BUT DID NOT QUANTIFY), ESPECIALLY SINCE LOW-SULPHUR MINAS CRUDE IS SPECIFIED

ENVIRONMENTAL STANDARD FOR MANY JAPANESE INDUSTRIAL USERS.

7. I ASKED WIJARSO IF HE THOUGHT OPEC WOULD DECIDE TO LOWER OIL PRICES AT ITS NEXT MEETING IN SEPTEMBER. WIJARSO RESPONDED, "LET US BE FRANK. WHO ARE THE PEOPLE TALKING ABOUT DOING IT? COULD THEY (SAUDI ARABIA) DO IT WHEN THE OTHERS DON'T GO ALONG? WOULD THEY (SAUDI ARABIA) BE WILLING TO ACCEPT LESS THAN 93 PERCENT BUY-BACK? IF SAUDI ARABIA IS WILLING TO ACCEPT LESS THAN 93 PERCENT, THAT WOULD BE A CLEAR INDICATION. IF NOT, WHAT THEY HAVE DONE IS GOOD PUBLIC RELATIONS." AFTER REVIEWING NATURE OF ISSUES DISCUSSED OVER LAST TWO YEARS (AND OBSERVING THERE WAS LESS TENSION AT QUITO OPEC MEETING THAN AT PREVIOUS MEETING), WIJARSO SAID THAT WITH THE BUY-BACK AND PARTICIPATION FORMULAS NOW FIXED, FOCUS OF ATTENTION AT NEXT OPEC MEETING WOULD BE THE POSTED PRICE, "UNLESS SOME ONE DECIDED TO CONFIDENTIAL

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CHANGE THE FORMULAS."

8. I ASKED IF OIL PRODUCERS WERE CONCERNED ABOUT THE NEGATIVE EFFECTS OF HIGH OIL PRICES ON EXPORT MARKETS. WIJARSO RESPONDED THAT WHILE OIL PRODUCERS RECOGNIZED THAT THE "SKY WAS NOT THE LIMIT" ON PRICE NEITHER WERE THEY CONVINCED HIGH OIL PRICES WOULD RESULT IN WORLDWIDE RECESSION. WIJARSO REFERRED TO RECENT COMMENT BY VISITING PROFESSOR ADELMAN WHO POINTED OUT ENERGY COST IS ONLY TWO PERCENT OF TOTAL WORLD GNP. WIJARSO SAID EFFECT OF HIGH OIL PRICES SHOULD ONLY HAVE TEMPORARY EFFECT ON INTERNATIONAL TRADE AND DISCOUNTED PLIGHT OF POOREST LDC'S BY SAYING, "THEY WILL DIE ANYWAY." WIJARSO CONSIDERED DEVELOPING COUNTRIES PREDICTIONS OF ECONOMIC COLLAPSE AS STRAWMAN FOR MORE BASIC CONCERN--"THAT OIL EXPORTERS WERE EARNING TOO MUCH MONEY AND WOULD HAVE TOO MUCH POWER."

9. COMMENT: WIJARSO WAS CORDIAL AND FRANK THROUGHOUT OUT 45 MINUTE MEETING WHICH I HAD TO CUT SHORT DUE TO APPOINTMENT WITH MINFIN WARDHANA (SEPTTEL). UNLIKE MINMINES SADLI (REFTELS B AND C), WIJARSO SPOKE AUTHORITATIVELY AND CONFIDENTLY ON THIS TECHNICAL SUBJECT UNDERSCORING FACT WE ARE DEALING WITH HIGHLY SOPHISTICATED AND WELL-INFORMED GROUP OF DECISION MAKERS. WIJARSO WELCOMED MY SUGGESTION THAT WE STRENGTHEN OUT CONTINUING DIALOGUE ON ENERGY PRICING.

10. ON BASIS MY CONVERSATIONS WITH SADLI AND WIJARSO

IOIS CLEAR INDONESIA SCEPTICAL OF CLAIMS THAT BASIC
OIL PRICES DECLINING, DESPITE AWARENESS OF CURRENT
SOFT MARKETING CONDITIONS. THEY ARE NOT MOVED BY
PLIGHT OF LDC'S. AS LONG AS JAPAN PREPARED ACCEPT
ESCALATING PRICES AND AS LONG AS REAL PRICES ON
LONGER TERM CONTRACTS IN MIDDLE EAST DO NOT DECLINE,
WE CANNOT EXPECT INDONESIA TO SET ISOLATED EXAMPLE
ON PRICE ISSUE. INDONESIA OFFICIALS ARE OPEN TO
DIALOGUE, HOWEVER, AND WE SHOULD CONTINUE PROVIDE
THEM, AS WE CAN, WITH HARD INFORMATION TO SUPPORT
OUT THESIS RE DECLINING PRICES TRENDS AND
ADVERSE ECONOMIC IMPACT OF HIHG OIL PRICES IN
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DEVELOPED COUNTRIES, PARTICULARLY JAPAN.
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To: STATE
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